

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF MASON	County INGHAM
Audit Date 6/30/05	Opinion Date 8/19/05	Date Accountant Report Submitted to State: 12/15/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

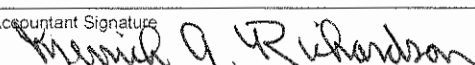
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			
Street Address 1000 COOLIDGE ROAD	City EAST LANSING	State MI	ZIP 48823
Accountant Signature 		Date 12/15/05	

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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Honorable Mayor and City Council
City of Mason
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Mason, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and the required supplementary information on pages 3 through 8 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Mason, Michigan's basic financial statements. The accompanying introductory section and supplemental financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Mason, Michigan. The supplemental financial information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 19, 2005 on our consideration of the City of Mason, Michigan's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
August 19, 2005

City of Mason, Michigan

Management's Discussion and Analysis

The City of Mason's discussion and analysis is a narrative overview of the City's financial activities for the fiscal year ended June 30, 2005. The information presented here should be read in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State shared revenues, our second largest revenue source, is down slightly from \$702,685 in 2003/2004 to \$669,101 in the current fiscal year.
- Interest revenues are on a slow, gradual incline as a result of Federal Prime Rate increases.
- Property tax base is growing due to significant local investment.
- Total net assets related to the City's governmental activities increased by approximately \$1,417,092.
- Accounting changes include charging benefits associated with personnel to each activity.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Mason on a government-wide basis. They are designed to present a longer-term view of the City's finances. These statements measure the cost of providing services during the current year, and estimate how closely the taxpayers have funded the full cost of providing government services.

Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

Reporting the City of Mason as a Whole

One of the most important questions asked about the City of Mason's finances is, "Is the City of Mason as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City of Mason as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City of Mason's *net assets* and changes in them. You can think of the City of Mason's net assets – the difference between assets and liabilities – as one way to measure the City of Mason's financial health, or *financial position*. Over time, *increases* or *decreases* in the City of

City of Mason, Michigan

Management's Discussion and Analysis (continued)

Mason's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City of Mason's captured property tax base to assess the *overall health* of the City of Mason.

Reporting the City of Mason's Most Significant Funds

The fund financial statements provide detailed information about the City of Mason's funds. The City of Mason's funds utilize the *governmental* accounting approach.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation statement presented with the fund financial statements.

- **Proprietary Funds** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary Fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the proprietary fund statement of net assets to the business-type column on the government-wide statement of net assets, the total net assets and liabilities agree.

- **Fiduciary Funds** – Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Mason's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

- **Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

- **Other Information** – In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General Fund. The combining statements in connection with non-major governmental funds are presented immediately following the notes to financial statements.

The City of Mason as a Whole

Statement of Net Assets – As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City of Mason's assets exceeded total liabilities by \$19,064,984 at the close of June 30, 2005. The following table shows, in a condensed format, the net assets as of June 30, 2005 to the prior year.

City of Mason, Michigan

Management's Discussion and Analysis (continued)

City of Mason's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005
Current assets	\$3,009,359	\$5,091,508	\$2,491,426	\$2,131,544	\$5,500,785	\$7,223,052
Noncurrent assets						
Restricted assets	289,500	295,672	2,302,442	2,555,727	2,591,942	2,851,399
Capital assets	4,090,444	5,086,005	8,213,496	8,299,591	12,303,940	13,385,596
Total assets	7,389,303	10,473,185	13,007,364	12,986,862	20,396,667	23,460,047
Current liabilities	668,758	2,460,021	953,934	211,418	1,622,692	2,671,439
Long-term liabilities	1,776,803	1,652,330	173,019	71,294	1,949,822	1,723,624
Total liabilities	2,445,561	4,112,351	1,126,953	282,712	3,572,514	4,395,063
Net assets						
Invested in capital assets-						
net of related debt	3,265,573	4,404,793			3,265,573	4,404,793
Contributed capital	81,497	81,497	3,368,382	3,368,382	3,449,879	3,449,879
Restricted	280,453	284,938			280,453	284,938
Unrestricted	1,316,219	1,589,606	8,512,029	9,335,768	9,828,248	10,925,374
Total net assets	<u>\$4,943,742</u>	<u>\$6,360,834</u>	<u>\$11,880,411</u>	<u>\$12,704,150</u>	<u>\$16,824,153</u>	<u>\$19,064,984</u>

Approximately 69% of the City's net assets of governmental activities reflect its investment in capital, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of governmental activities of \$1,589,606 represent the amount that may be used to meet the City's ongoing obligations.

Changes in Net Assets – The City's total net assets increased by \$2,240,831 during the fiscal year. Governmental activities increased net assets by \$1,417,092, or 63.2% of the total growth in net assets of the City of Mason. The table below shows the changes in net assets for the current year and the prior year.

City of Mason, Michigan

Management's Discussion and Analysis (continued)

City of Mason Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005
Revenue						
Program Revenue						
Charges for Services	\$922,063	\$945,539	\$1,855,631	\$2,219,608	\$2,777,694	\$3,165,147
Operating grants and contributions	1,201,788	1,181,229			1,201,788	1,181,229
General revenues						
Property taxes	2,236,200	2,398,485			2,236,200	2,398,485
Miscellaneous	55,759	35,174	27,862	40,329	55,759	75,503
Unrestricted investment earnings	40,192	91,608	62,842	75,231	103,034	166,839
Transfers	226,825	307,865	-140,757	-140,836	86,068	167,029
Total Revenues	4,682,827	4,959,900	1,805,578	2,194,332	6,488,405	7,154,232
Program Expenses						
General Government	1,662,033	1,390,361			1,662,033	1,390,361
Public Safety	1,370,232	1,348,603			1,370,232	1,348,603
Public Works	234,844	257,953			234,844	257,953
Highway and Streets	216,404	291,621			216,404	291,621
Culture and recreation	216,015	185,980			216,015	185,980
Other	159,927	8,395			159,927	8,395
Interest on long-term debt	65,655	59,895			65,655	59,895
Water and sewer			1,350,264	1,370,593	1,350,264	1,370,593
Total program expenses	3,925,110	3,542,808	1,350,264	1,370,593	5,275,374	4,913,401
Increase in net assets	757,717	1,417,092	455,314	823,739	1,213,031	2,240,831
Net assets-July 1	4,186,025	4,943,742	11,425,097	11,880,411	15,611,122	16,824,153
Net assets-June 30	<u>\$4,943,742</u>	<u>\$6,360,834</u>	<u>\$11,880,411</u>	<u>\$12,704,150</u>	<u>\$16,824,153</u>	<u>\$19,064,984</u>

Governmental Activities – Program revenues, which include user fees and charges and operating grants and contributions, represent 43% of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and State revenue sharing.

Business-type Activities – Business-type activities increased the City of Mason's net assets by \$823,739, the majority of which was in the Water and Sewer Fund. The City provides water to residents from municipal water wells. Sewage treatment is provided through a City owned and operated treatment plant. Water and sewer rates and user charges were adjusted for this fiscal year after a study of the Fund showed that current charges were not covering operating expenses. Water and sewer permit revenue had been supplementing the shortfall.

The City of Mason has seen increased revenue for water and sewer permits for four to five years due to new residential construction.

A number of significant improvements to the water and sewer system have been driven by government regulation and growth. A second water tower was constructed last year, and all new radio-controlled

City of Mason, Michigan

Management's Discussion and Analysis (continued)

water meters were installed in 2004-2005. This fiscal year saw the first Phase II Storm Water Regulation impacts.

Financial Analysis of the City's Funds

Our analysis of the City's major funds begins on the pages following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local street revenue sharing. The City of Mason's major funds for 2004/2005 are the General Fund, the Major Streets Fund, the Local Streets Fund, the Special Assessments Fund, the Building Authority Fund, and the Water and Sewer Fund.

The General Fund accounts for most of the City's governmental services. General administrative, police, and fire services account for over 80% of the total General Fund expenditures. Operating expenses exceeded revenues and other financing sources by \$173,197.

The City of Mason and its taxpayers have invested aggressively in infrastructure since voters passed a 3 mill increase to be dedicated to street improvement and maintenance. This was in addition to the 2 mills the City was already spending. For fund reporting purposes, however, the infrastructure is not recorded as an asset as it is in the government wide statement of net assets. There is no related debt other than special assessment bonds in some cases.

General Fund Budgetary Highlights

Over the course of the year, the City monitors and amends the budget to take into account unanticipated events during the year. At year end, actual General Fund revenues were only \$35,623 less than the final budget and about \$45,000 more than the original budget. Expenditures were originally budgeted to exceed revenues and net operating transfers by \$246,970. The final budget adjusted expenditures over revenues and net operating transfers to \$167,710, and the actual was \$173,197. The differences were due to strict oversight of purchases, increase in interest rates, greater than expected permit activity, and unexpected expenses related to the library.

Capital Assets and Debt Administration

At the end of fiscal year 2004/2005, the City had approximately \$13,385,596 invested in land, land improvements, buildings, water and sewer lines, vehicles and equipment. See Note 4 to the basic financial statements for additional information.

Debt reported in Note 5 to these financial statements is related to the construction and maintenance of the above-mentioned assets with the exception of Special Assessment bonds. Special Assessment bonds are carried by the City to finance the property owner portion of a street and/or sidewalk improvement project. The assessments are paid back to the City with sufficient interest to cover the bond interest rate and administrative costs.

City of Mason, Michigan

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2004/2005 fiscal year included the growth of the property tax base due to additions of parcels and residential growth. There is no change in property tax rate. Because of unreliable State revenues and the impact of Proposal A, which limits the growth on existing property to the rate of inflation, the City needs to continue to watch its budget closely.

Despite the concerns, the City continues to operate with an efficient labor force. We expect continued annual increases in medical costs near ten percent per year. The funding of retiree health care and capital assets are concerns that must be addressed in coming years.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements provide information of the governmental activities, business-type activities, aggregate totals of discretely presented component units, major funds and the aggregate remaining funds, which, collectively, comprise the activities of the City of Mason.

CITY OF MASON, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash and cash equivalents	\$ 2,818,873	\$ 1,948,202	\$ 4,767,075	\$ 937,827
Taxes receivable	2,046,574		2,046,574	52,049
Accounts receivable	3,394	174,128	177,522	172
Accrued interest	4,955	7,034	11,989	718
Due from				
Other funds	30,904	2,180	33,084	18,202
Other governmental units	602		602	
State of Michigan	186,206		186,206	
Inventory		33,773	33,773	
Restricted cash	284,942	517,154	802,096	
Restricted investments		2,000,000	2,000,000	
Deferred expense	10,730	4,800	15,530	
Capital assets (net of accumulated depreciation)	5,086,005	8,299,591	13,385,596	355,293
TOTAL ASSETS	\$ 10,473,185	\$ 12,986,862	\$ 23,460,047	\$ 1,364,261
LIABILITIES				
Current liabilities				
Accounts payable	\$ 218,003	\$ 24,712	\$ 242,715	\$
Retainers payable	54,442		54,442	
Due to other funds	46,103	1,176	47,279	922
Due to other units of government	50		50	
Accrued interest	11,085		11,085	16,760
Deferred revenue	2,021,159		2,021,159	
Bonds and notes payable	109,179	185,530	294,709	319,498
Noncurrent liabilities				
Bonds and notes payable	1,049,728	71,294	1,121,022	1,778,557
Accrued compensated absences	602,602		602,602	
TOTAL LIABILITIES	4,112,351	282,712	4,395,063	2,115,737
NET ASSETS				
Invested in capital assets, net of related debt	4,404,793		4,404,793	355,293
Contributed capital	81,497	3,368,382	3,449,879	
Restricted for cemetery perpetual care	284,938		284,938	
Unrestricted, reserved for				
Capital projects	69,919		69,919	
Expansion of PTOW		2,517,154	2,517,154	
Unrestricted, unreserved	1,519,687	6,818,614	8,338,301	(1,106,769)
TOTAL NET ASSETS	6,360,834	12,704,150	19,064,984	(751,476)
TOTAL LIABILITIES AND NET ASSETS	\$ 10,473,185	\$ 12,986,862	\$ 23,460,047	\$ 1,364,261

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

		PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
	EXPENSES		
FUNCTIONS/PROGRAMS			
Primary Government			
Governmental activities			
General government	\$ 1,390,361	\$ 397,436	\$ 665,033
Public safety	1,348,603	257,042	35,298
Public works	257,953	276,568	
Highways and streets	291,621		480,773
Culture and recreation	185,980	2,403	
Other	8,395	12,090	125
Interest on long-term debt	59,895		
Total Governmental Activities	<u>3,542,808</u>	<u>945,539</u>	<u>1,181,229</u>
Business-Type Activities			
Water and sewer	<u>1,370,593</u>	<u>2,219,608</u>	
Total Primary Government	<u>\$ 4,913,401</u>	<u>\$ 3,165,147</u>	<u>\$ 1,181,229</u>
Component Units			
Local Development Finance Authority	\$ 146,384	\$	\$
Downtown Development Authority	<u>44,701</u>		
Total Component Units	<u>\$ 191,085</u>	<u>\$</u>	<u>\$</u>
General Revenues			
Property taxes levied for general purposes			
Miscellaneous			
Unrestricted investment earnings			
Transfers			
Total General Revenues and Transfers			
Change in Net Assets			
Net Assets, July 1			
Net Assets, June 30			

See accompanying notes to financial statements.

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNITS
	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL	
\$	\$ (327,892)	\$	\$ (327,892)	\$
	(1,056,263)		(1,056,263)	
	18,615		18,615	
	189,152		189,152	
	(183,577)		(183,577)	
	3,820		3,820	
	(59,895)		(59,895)	
	(1,416,040)		(1,416,040)	
		849,015	849,015	
\$	(1,416,040)	849,015	(567,025)	
\$				(146,384)
				(44,701)
\$				(191,085)
	2,398,485		2,398,485	723,153
	35,174	40,329	75,503	
	91,608	75,231	166,839	20,122
	307,865	(140,836)	167,029	(167,029)
	2,833,132	(25,276)	2,807,856	576,246
	1,417,092	823,739	2,240,831	385,161
	4,943,742	11,880,411	16,824,153	(1,136,637)
	\$ 6,360,834	\$ 12,704,150	\$ 19,064,984	\$ (751,476)

CITY OF MASON, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2005

	GENERAL	MAJOR STREETS	LOCAL STREETS
ASSETS			
Cash and cash equivalents	\$ 936,452	\$ 367,691	\$ 126,701
Receivables			
Special assessments	35,870		
Accounts receivable	3,184	126	71
Accrued interest	4,914	26	15
Due from other funds	8,568	5,766	2,244
Due from other units of government	602		
Due from State of Michigan	92,380	53,512	40,314
Restricted cash			
Deferred expense	10,730		
TOTAL ASSETS	\$ 1,092,700	\$ 427,121	\$ 169,345
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable	\$ 109,340	\$	\$ 105
Retainers payable			
Due to other funds	36,501		
Due to other units of government	50		
Deferred revenue	10,455		
TOTAL LIABILITIES	156,346		105
EQUITY			
Fund balance			
Reserved for			
Cemetery perpetual care			
Retiree medical benefits	77,869		
Debt service			
Capital project fund			
Unreserved-undesignated reported in			
General fund	858,485		
Special revenue funds		427,121	169,240
Permanent fund			
TOTAL EQUITY	936,354	427,121	169,240
TOTAL LIABILITIES AND EQUITY	\$ 1,092,700	\$ 427,121	\$ 169,345

See accompanying notes to financial statements.

STREET CONSTRUCTION	SPECIAL ASSESSMENTS	BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 208,498	\$ 263,208	\$ 253	\$ 517,119	\$ 2,419,922
	2,010,704			2,046,574
				3,381
				4,955
			12,246	28,824
				602
				186,206
			284,942	284,942
				10,730
<u>\$ 208,498</u>	<u>\$ 2,273,912</u>	<u>\$ 253</u>	<u>\$ 814,307</u>	<u>\$ 4,986,136</u>
\$ 107,474	\$	\$	\$	\$ 216,919
54,442				54,442
4,767			4,835	46,103
	2,010,704			50
	<u>2,010,704</u>			<u>2,021,159</u>
<u>166,683</u>	<u>2,010,704</u>		<u>4,835</u>	<u>2,338,673</u>
			284,938	284,938
	263,208	253		77,869
			69,919	263,461
				69,919
41,815				858,485
			18,789	656,965
			435,826	435,826
<u>41,815</u>	<u>263,208</u>	<u>253</u>	<u>809,472</u>	<u>2,647,463</u>
<u>\$ 208,498</u>	<u>\$ 2,273,912</u>	<u>\$ 253</u>	<u>\$ 814,307</u>	<u>\$ 4,986,136</u>

CITY OF MASON, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances-governmental funds		\$ 2,647,463
Amounts reported for governmental activities in the statement of net assets are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Land	\$ 1,276,251	
Land improvements	769,253	
Infrastructure - streets	1,374,280	
Construction in progress	903,490	
Buildings and improvements	1,534,512	
Vehicles and equipment	2,119,406	
Accumulated depreciation	<u>(2,891,187)</u>	5,086,005
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The net capital assets of the internal service fund are reported as capital assets in the governmental funds.		(233,305)
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		633,265
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	\$ (1,158,907)	
Accrued interest	(11,085)	
Accrued compensated absences	<u>(602,602)</u>	<u>(1,772,594)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		\$ <u>6,360,834</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL	MAJOR STREETS	LOCAL STREETS
REVENUES			
Taxes	\$ 1,427,452	\$ 853,986	\$
Licenses and permits	122,278		
State revenue	669,101	344,347	136,426
Charges for services	521,811		
Federal revenue	31,230		
Interest	25,991	5,530	4,674
Rent and royalties	7,605		
Other	29,669	367	2,089
Special assessments			
TOTAL REVENUES	<u>2,835,137</u>	<u>1,204,230</u>	<u>143,189</u>
EXPENDITURES			
Council	23,512		
Administrator	310,387		
Elections	17,366		
General service administration	937,737		
Law enforcement	977,254		
Fire department	248,341		
Protective services	79,226		
Public services	4,952		
Engineering	1,057		
Highways, streets, bridges and lighting	76,993	194,152	174,529
Sanitation	251,237		
Recreation	139,869		
Cultural	21,435		
Commissions	4,799		
Contingency	6,098		
Capital outlay			
Bond/loan principal	6,115		
Interest and fiscal charges	630		
TOTAL EXPENDITURES	<u>3,107,008</u>	<u>194,152</u>	<u>174,529</u>

See accompanying notes to financial statements.

STREET CONSTRUCTION	SPECIAL ASSESSMENTS	BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$	\$	\$	\$	\$
				2,281,438
				122,278
				1,149,874
			4,485	526,296
				31,230
	17,452	4	50,339	103,990
				7,605
				32,125
	99,595			99,595
	117,047	4	54,824	4,354,431
				23,512
				310,387
				17,366
				937,737
				977,254
				248,341
				79,226
				4,952
				1,057
903,642				1,349,316
				251,237
				139,869
				21,435
				4,799
				6,098
			2,297	2,297
	59,000	15,000	42,440	122,555
	19,102	18,244	23,521	61,497
903,642	78,102	33,244	68,258	4,558,935

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

	GENERAL	MAJOR STREETS	LOCAL STREETS
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>(271,871)</u>	\$ <u>1,010,078</u>	\$ <u>(31,340)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	447,610		
Transfers out	<u>(348,936)</u>	<u>(872,757)</u>	<u>(50,910)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>98,674</u>	<u>(872,757)</u>	<u>(50,910)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(173,197)	137,321	(82,250)
FUND BALANCE, JULY 1	<u>1,109,551</u>	<u>289,800</u>	<u>251,490</u>
FUND BALANCE, JUNE 30	\$ <u><u>936,354</u></u>	\$ <u><u>427,121</u></u>	\$ <u><u>169,240</u></u>

See accompanying notes to financial statements.

STREET CONSTRUCTION	SPECIAL ASSESSMENTS	BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ <u>(903,642)</u>	\$ <u>38,945</u>	\$ <u>(33,240)</u>	\$ <u>(13,434)</u>	\$ <u>(204,504)</u>
945,457	250,000	33,244	65,961	1,742,272
<u> </u>	<u>(124,780)</u>	<u> </u>	<u>(9,985)</u>	<u>(1,407,368)</u>
<u>945,457</u>	<u>125,220</u>	<u>33,244</u>	<u>55,976</u>	<u>334,904</u>
41,815	164,165	4	42,542	130,400
<u> </u>	<u>99,043</u>	<u>249</u>	<u>766,930</u>	<u>2,517,063</u>
\$ <u><u>41,815</u></u>	\$ <u><u>263,208</u></u>	\$ <u><u>253</u></u>	\$ <u><u>809,472</u></u>	\$ <u><u>2,647,463</u></u>

CITY OF MASON, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net changes in fund balances-total governmental funds	\$	130,400
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives

Expenditures for capital assets - total	\$	1,189,360	
Less current year depreciation		<u>(98,891)</u>	1,090,469

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

Accrued interest		1,600	
Principal payments			122,555

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds

Change in accrued compensated absences			15,294
--	--	--	--------

Internal service funds are used by management to charge the costs of certain activities to individual funds.

The net income of the internal service funds is reported with governmental activities.

		<u>56,774</u>	
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>1,417,092</u></u>	

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 1,419,945	\$ 1,426,755	\$ 1,427,452	\$ 697
Licenses and permits	91,395	118,225	122,278	4,053
State revenue	696,600	685,010	669,101	(15,909)
Federal revenue	35,050	31,230	31,230	
Charges for services	508,505	520,030	521,811	1,781
Interest	25,000	52,695	25,991	(26,704)
Rent and royalties	6,700	7,455	7,605	150
Other	6,965	29,360	29,669	309
TOTAL REVENUES	<u>2,790,160</u>	<u>2,870,760</u>	<u>2,835,137</u>	<u>(35,623)</u>
EXPENDITURES				
Council	25,340	23,765	23,512	253
Administrator	187,825	312,030	310,387	1,643
Elections	25,180	17,560	17,366	194
General services administration	1,046,390	938,410	937,737	673
Law enforcement	1,045,325	986,950	977,254	9,696
Fire department	233,955	255,315	248,341	6,974
Protective services	80,960	80,305	79,226	1,079
Public services	4,595	5,055	4,952	103
Engineering	4,645	1,100	1,057	43
Highway, streets, bridges and lighting	83,000	77,200	76,993	207
Sanitation	231,100	251,250	251,237	13
Recreation	145,865	150,255	139,869	10,386
Cultural	11,805	20,065	21,435	(1,370)
Commissions	7,800	5,010	4,799	211
Contingency		6,100	6,098	2
Bond/loan principal	6,130	6,130	6,115	15
Interest and fiscal charges	615	615	630	(15)
TOTAL EXPENDITURES	<u>3,140,530</u>	<u>3,137,115</u>	<u>3,107,008</u>	<u>30,107</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(350,370)</u>	<u>(266,355)</u>	<u>(271,871)</u>	<u>(5,516)</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 451,570	\$ 447,605	\$ 447,610	\$ 5
Transfers out	<u>(348,170)</u>	<u>(348,960)</u>	<u>(348,936)</u>	<u>24</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>103,400</u>	<u>98,645</u>	<u>98,674</u>	<u>29</u>
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES EXPENDITURES AND OTHER AND OTHER FINANCING USES	(246,970)	(167,710)	(173,197)	(5,487)
FUND BALANCE, JULY 1	<u>1,109,551</u>	<u>1,109,551</u>	<u>1,109,551</u>	
FUND BALANCE, JUNE 30	<u><u>\$ 862,581</u></u>	<u><u>\$ 941,841</u></u>	<u><u>\$ 936,354</u></u>	<u><u>\$ (5,487)</u></u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREETS
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$ 828,805	\$ 853,980	\$ 853,986	\$ 6
State revenue	320,000	345,505	344,347	(1,158)
Interest	1,500	3,600	5,530	1,930
Other		370	367	(3)
TOTAL REVENUES	<u>1,150,305</u>	<u>1,203,455</u>	<u>1,204,230</u>	<u>775</u>
EXPENDITURES				
Highways and streets	<u>228,125</u>	<u>201,695</u>	<u>194,152</u>	<u>7,543</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>922,180</u>	<u>1,001,760</u>	<u>1,010,078</u>	<u>8,318</u>
OTHER FINANCING USES				
Transfers out	<u>(880,785)</u>	<u>(872,760)</u>	<u>(872,757)</u>	<u>3</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	41,395	129,000	137,321	8,321
FUND BALANCE, JULY 1	<u>289,800</u>	<u>289,800</u>	<u>289,800</u>	
FUND BALANCE, JUNE 30	<u>\$ 331,195</u>	<u>\$ 418,800</u>	<u>\$ 427,121</u>	<u>\$ 8,321</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREETS
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
State revenue	\$ 122,000	\$ 138,000	\$ 136,426	\$ (1,574)
Interest	1,500	2,755	4,674	1,919
Other		2,095	2,089	(6)
TOTAL REVENUES	<u>123,500</u>	<u>142,850</u>	<u>143,189</u>	<u>339</u>
EXPENDITURES				
Highways and streets	<u>197,655</u>	<u>175,340</u>	<u>174,529</u>	<u>811</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(74,155)</u>	<u>(32,490)</u>	<u>(31,340)</u>	<u>1,150</u>
OTHER FINANCING USES				
Transfers out	<u>(50,910)</u>	<u>(50,910)</u>	<u>(50,910)</u>	
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(125,065)	(83,400)	(82,250)	1,150
FUND BALANCE, JULY 1	<u>251,490</u>	<u>251,490</u>	<u>251,490</u>	
FUND BALANCE, JUNE 30	<u>\$ 126,425</u>	<u>\$ 168,090</u>	<u>\$ 169,240</u>	<u>\$ 1,150</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET CONSTRUCTION
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES	\$ _____	\$ _____	\$ _____	\$ _____
EXPENDITURES				
Highways and streets	\$ <u>1,434,325</u>	\$ <u>1,272,880</u>	\$ <u>903,642</u>	\$ <u>369,238</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(1,434,325)</u>	<u>(1,272,880)</u>	<u>(903,642)</u>	<u>369,238</u>
OTHER FINANCING SOURCES				
Transfers in	<u>1,434,325</u>	<u>1,314,685</u>	<u>945,457</u>	<u>(369,228)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES		41,805	41,815	10
FUND BALANCE, JULY 1	_____	_____	_____	_____
FUND BALANCE, JUNE 30	\$ <u>_____</u>	\$ <u>41,805</u>	\$ <u>41,815</u>	\$ <u>10</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL ASSESSMENTS
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Special assessments	\$ 55,000	\$ 55,000	\$ 99,595	\$ 44,595
Interest	<u>264,690</u>	<u>17,395</u>	<u>17,452</u>	<u>57</u>
TOTAL REVENUES	<u>319,690</u>	<u>72,395</u>	<u>117,047</u>	<u>44,652</u>
EXPENDITURES				
Other				
Bond/loan principal	59,000	59,000	59,000	
Interest on fiscal charges	<u>19,110</u>	<u>19,110</u>	<u>19,102</u>	<u>8</u>
TOTAL EXPENDITURES	<u>78,110</u>	<u>78,110</u>	<u>78,102</u>	<u>8</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>241,580</u>	<u>(5,715)</u>	<u>38,945</u>	<u>44,660</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		250,000	250,000	
Transfers out		<u>(124,780)</u>	<u>(124,780)</u>	
TOTAL OTHER FINANCING SOURCES (USES)		<u>125,220</u>	<u>125,220</u>	
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	241,580	119,505	164,165	44,660
FUND BALANCE, JULY 1	<u>99,043</u>	<u>99,043</u>	<u>99,043</u>	
FUND BALANCE, JUNE 30	\$ <u>340,623</u>	\$ <u>218,548</u>	\$ <u>263,208</u>	\$ <u>44,660</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
BUILDING AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Interest	\$ _____	\$ _____	\$ _____ 4	\$ _____ 4
EXPENDITURES				
Bond/loan principal	15,000	15,000	15,000	
Interest on fiscal charges	<u>18,245</u>	<u>18,245</u>	<u>18,244</u>	<u>1</u>
TOTAL EXPENDITURES	<u>33,245</u>	<u>33,245</u>	<u>33,244</u>	<u>1</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(33,245)</u>	<u>(33,245)</u>	<u>(33,240)</u>	<u>5</u>
OTHER FINANCING SOURCES				
Transfers in	<u>33,245</u>	<u>33,245</u>	<u>33,244</u>	<u>(1)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES			4	4
FUND BALANCE, JULY 1	<u>249</u>	<u>249</u>	<u>249</u>	
FUND BALANCE, JUNE 30	\$ <u><u>249</u></u>	\$ <u><u>249</u></u>	\$ <u><u>253</u></u>	\$ <u><u>4</u></u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND	GOVERNMENTAL ACTIVITIES
	WATER AND SEWER	INTERNAL SERVICE
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,948,202	\$ 398,951
Receivables		
Accounts	174,128	13
Accrued interest	7,034	
Due from other funds	2,180	2,080
Inventory	33,773	
Deferred expense	4,800	
TOTAL CURRENT ASSETS	<u>2,170,117</u>	<u>401,044</u>
NONCURRENT ASSETS		
Restricted cash	517,154	
Restricted investments	2,000,000	
Capital assets (net of accumulated depreciation)	<u>8,299,591</u>	<u>233,305</u>
TOTAL NON CURRENT ASSETS	<u>10,816,745</u>	<u>233,305</u>
TOTAL ASSETS	<u>\$ 12,986,862</u>	<u>\$ 634,349</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 24,712	\$ 1,084
Due to other funds	1,176	
Bonds payable - current portion	<u>185,530</u>	
TOTAL CURRENT LIABILITIES	<u>211,418</u>	<u>1,084</u>
LONG-TERM LIABILITIES		
Bonds payable	<u>71,294</u>	
NET ASSETS		
Contributed capital	3,368,382	81,497
Retained earnings		
Unreserved	6,818,614	551,768
Reserved	<u>2,517,154</u>	
TOTAL NET ASSETS	<u>12,704,150</u>	<u>633,265</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,986,862</u>	<u>\$ 634,349</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND WATER AND SEWER	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
OPERATING REVENUES		
Charges for services	\$ 1,643,083	\$ 289,360
Penalties	33,802	
Permits	576,525	
Other	6,527	3,174
TOTAL OPERATING REVENUES	<u>2,259,937</u>	<u>292,534</u>
OPERATING EXPENSES		
Personnel costs	646,888	32,119
Contractual services	71,831	17,889
Supplies	66,889	52,694
Public utilities	113,591	6,174
Equipment rental	86,323	
Depreciation	322,050	94,908
Maintenance	43,906	10,007
TOTAL OPERATING EXPENSES	<u>1,351,478</u>	<u>213,791</u>
INCOME FROM OPERATIONS	<u>908,459</u>	<u>78,743</u>
NONOPERATING REVENUE (EXPENSE)		
Interest income	75,231	5,070
Interest expense and fiscal charges	(19,115)	
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>56,116</u>	<u>5,070</u>
INCOME BEFORE OTHER FINANCING SOURCES (USES)	<u>964,575</u>	<u>83,813</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	159,659	
Transfers out	(300,495)	(27,039)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(140,836)</u>	<u>(27,039)</u>
NET INCOME	823,739	56,774
NET ASSETS, JULY 1	<u>11,880,411</u>	<u>576,491</u>
NET ASSETS, JUNE 30	<u>\$ 12,704,150</u>	<u>\$ 633,265</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
WATER AND SEWER
FOR THE YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Charges for services	\$ 1,630,233
Penalties	33,802
Permits	576,525
Other	24,600
Payments to suppliers	(1,036,455)
Payments to employees	(646,888)

NET CASH PROVIDED BY OPERATING ACTIVITIES	581,817
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers in	159,659
Transfers out	(300,495)

NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(140,836)
--	-----------

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments on long-term debt and notes payable	(91,195)
Interest expense and fiscal charges	(10,738)
Purchase of capital assets	(408,145)

NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(510,078)
---	-----------

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	68,554
Increase in restricted cash and investments	(360,793)

NET CASH USED IN INVESTING ACTIVITIES	(292,239)
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(361,336)
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CASH AND CASH EQUIVALENTS, JULY 1	2,309,538
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CASH AND CASH EQUIVALENTS, JUNE 30	\$ 1,948,202
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RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATIONS

Operating income	\$ 908,459
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	322,050
Change in assets and liabilities	
Increase in accounts receivable	(12,850)
Decrease in due from other funds	18,073
Increase in inventory	(12,375)
Decrease in deferred expense	119,883
Decrease in accounts payable	(756,475)
Decrease in due to other funds	(4,948)

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 581,817
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See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	CURRENT TAX	DELINQUENT TAX	TAX ESCROW	PAYROLL FUND
ASSETS				
Cash and cash equivalents	\$ <u>465</u>	\$ <u>4,433</u>	\$ <u>2</u>	\$ <u>61,302</u>
LIABILITIES				
Accounts payable	\$	\$ 3	\$	\$
Due to other funds	465	2	2	2,616
Payroll withholdings payable				58,686
Due to other units of government	<u></u>	<u>4,428</u>	<u></u>	<u></u>
TOTAL LIABILITIES	\$ <u>465</u>	\$ <u>4,433</u>	\$ <u>2</u>	\$ <u>61,302</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
CURRENT TAX				
ASSETS				
Cash and cash equivalents	\$ 2	\$ 10,179,327	\$ 10,178,864	\$ 465
Taxes receivable				
Real property		8,943,540	8,943,540	
Personal property		1,105,789	1,105,789	
IFT and CFT		755,282	755,282	
Due from general fund		1,843	1,843	
TOTAL ASSETS	<u>\$ 2</u>	<u>\$ 20,985,781</u>	<u>\$ 20,985,318</u>	<u>\$ 465</u>
LIABILITIES				
Accounts payable	\$	\$ 53,471	\$ 53,471	\$
Due to other funds	2	4,001,342	4,000,879	465
Due to schools		4,667,864	4,667,864	
Due to other units of government		3,547,544	3,547,544	
TOTAL LIABILITIES	<u>\$ 2</u>	<u>\$ 12,270,221</u>	<u>\$ 12,269,758</u>	<u>\$ 465</u>
DELINQUENT TAX				
ASSETS				
Cash and cash equivalents	<u>\$ 1,174</u>	<u>\$ 28,451</u>	<u>\$ 25,192</u>	<u>\$ 4,433</u>
LIABILITIES				
Accounts payable	\$	\$ 18,114	\$ 18,111	\$ 3
Due to other funds	2	16,317	16,317	2
Due to other units of government	1,172	27,448	24,192	4,428
TOTAL LIABILITIES	<u>\$ 1,174</u>	<u>\$ 61,879</u>	<u>\$ 58,620</u>	<u>\$ 4,433</u>
TAX ESCROW				
ASSETS				
Cash and cash equivalents	<u>\$ 2</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2</u>
LIABILITIES				
Due to other funds	<u>\$ 2</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
PAYROLL FUND				
ASSETS				
Cash and cash equivalents	\$ 24,881	\$ 3,075,730	\$ 3,039,309	\$ 61,302
Accrued interest receivable	12		12	
Due from other funds		2,717,237	2,717,237	
TOTAL ASSETS	<u>\$ 24,893</u>	<u>\$ 5,792,967</u>	<u>\$ 5,756,558</u>	<u>\$ 61,302</u>
LIABILITIES				
Due to other funds	\$ 12	\$ 308,327	\$ 305,723	\$ 2,616
Payroll withholdings payable	24,881	1,577,135	1,543,330	58,686
TOTAL LIABILITIES	<u>\$ 24,893</u>	<u>\$ 1,885,462</u>	<u>\$ 1,849,053</u>	<u>\$ 61,302</u>

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	DEBT SERVICE GENERAL OBLIGATIONS	CAPITAL PROJECTS CAPITAL IMPROVEMENTS	SPECIAL REVENUE ECONOMIC DEVELOPMENT CORPORATION	PERMANENT	TOTAL
ASSETS					
Cash and cash equivalents	\$	\$ 69,919	\$ 18,476	\$ 428,724	\$ 517,119
Due from other funds			313	11,933	12,246
Restricted cash				284,942	284,942
TOTAL ASSETS	\$	\$ 69,919	\$ 18,789	\$ 725,599	\$ 814,307
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Due to other funds	\$	\$	\$	\$ 4,835	\$ 4,835
FUND BALANCE					
Reserved				284,938	284,938
Unreserved		69,919	18,789	435,826	524,534
TOTAL FUND BALANCE		69,919	18,789	720,764	809,472
TOTAL LIABILITIES AND FUND BALANCE	\$	\$ 69,919	\$ 18,789	\$ 725,599	\$ 814,307

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	DEBT SERVICE GENERAL OBLIGATIONS	CAPITAL PROJECTS CAPITAL IMPROVEMENTS	SPECIAL REVENUE ECONOMIC DEVELOPMENT CORPORATION	PERMANENT	TOTAL
REVENUES					
Charges for services	\$	\$	\$	\$ 4,485	\$ 4,485
Interest and royalties		1,256	314	48,769	50,339
TOTAL REVENUES		1,256	314	53,254	54,824
EXPENDITURES					
Capital outlay		2,297			2,297
Bond/loan principal	23,440	19,000			42,440
Interest and fiscal charges	18,542	4,979			23,521
	41,982	26,276			68,258
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(41,982)	(25,020)	314	53,254	(13,434)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	41,982	23,979		(9,985)	55,976
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES		(1,041)	314	43,269	42,542
FUND BALANCE, JULY 1		70,960	18,475	677,495	766,930
FUND BALANCE, JUNE 30	\$	\$ 69,919	\$ 18,789	\$ 720,764	\$ 809,472

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2005

	LOCAL DEVELOPMENT FINANCE AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY	TOTAL
ASSETS			
Cash and cash equivalents	\$ 803,215	\$ 134,612	\$ 937,827
Receivables			
Delinquent taxes	260	51,789	52,049
Accounts		172	172
Deferred expenses		718	718
Due from other funds	15,288	2,914	18,202
Capital assets (net of accumulated depreciation)	355,293		355,293
TOTAL ASSETS	\$ 1,174,056	\$ 190,205	\$ 1,364,261
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current liabilities			
Due to other funds	\$	\$ 922	\$ 922
Accrued interest	16,760		16,760
Bonds payable	319,498		319,498
TOTAL CURRENT LIABILITIES	336,258	922	337,180
NONCURRENT LIABILITIES			
Bonds payable	1,778,557		1,778,557
TOTAL LIABILITIES	2,114,815	922	2,115,737
NET ASSETS			
Invested in capital assets, net of related debt	355,293		355,293
Unreserved	(1,296,052)	189,283	(1,106,769)
TOTAL NET ASSETS	(940,759)	189,283	(751,476)
TOTAL LIABILITIES AND NET ASSETS	\$ 1,174,056	\$ 190,205	\$ 1,364,261

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2005

		PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
	EXPENSES		
Component Units			
Local Development Finance Authority	\$ 146,384	\$	\$
Downtown Development Authority	44,701		
Total Component Units	<u>\$ 191,085</u>	<u>\$</u>	<u>\$</u>
General Revenues			
Property taxes			
Unrestricted investment earnings			
Transfers			
Total General Revenues and Transfers			
Change in Net Assets			
Net Assets, July 1			
Net Assets, June 30			

See accompanying notes to financial statements.

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	LOCAL DEVELOPMENT FINANCE AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY	TOTAL
\$	\$ (146,384)	\$	\$ (146,384)
		(44,701)	(44,701)
\$	(146,384)	(44,701)	(191,085)
	666,550	56,603	723,153
	17,333	2,789	20,122
	(167,029)		(167,029)
	516,854	59,392	576,246
	370,470	14,691	385,161
	(1,311,229)	174,592	(1,136,637)
	\$ (940,759)	\$ 189,283	\$ (751,476)

CITY OF MASON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mason was incorporated in 1865 and covers an area of approximately 4.94 square miles. The City of Mason operates under an elected Council (7 members) and provides services to its more than 7,000 residents in many areas including law enforcement and community enrichment and development.

The accounting policies of the City of Mason conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

All funds and account groups under direct control of the City are included in this report. These funds and account groups are those which meet the criteria established by Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity, and Statement on Michigan Governmental Accounting and Auditing No.5.

The criteria established by GASB for determining which of the City's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the City.

Blended Component Units

The Building Authority accounts for the acquisition, furnishing, equipping, improving and enlarging of buildings, automobile parking lots or structures, recreational facilities and the necessary sites therefore, and the payment of the bond principal and interest for any related debt incurred. The Building Authority is reported as a debt service fund.

The Economic Development Corporation was formed by the City of Mason under the laws of the State of Michigan to finance projects that will create employment and growth for the City. The Economic Development Corporation is reported as a special revenue fund.

Discretely Presented Component Units

The following entities are listed as discretely presented component units of the City in the component unit column to emphasize their legally separate status from the primary government. The City is financially accountable, and exclusion from the government-wide financial statements would be misleading or incomplete.

Local Development Finance Authority
Downtown Development Authority

Complete financial statements for each individual component unit may be obtained at Mason City Hall.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

A. Reporting Entity - Concluded

The Local Development Finance Authority

In accordance with provision of Act 425, Public Act of 1984, the City of Mason and the Township of VeVay signed an agreement dated November 3, 1989 in which approximately 134 acres is conditionally transferred from the Township to the City for a period of 30 years from the date of the agreement. As a condition of this agreement, the Local Development Finance Authority was created in 1989 in accordance with provisions of Act 281, Public Acts of Michigan, 1986 as amended. The purpose of the Local Development Finance Authority is to help stimulate economic growth, improve employment, stimulate new private investment in the City of Mason and Vevay Township, and to broaden the local tax base. The Local Development Finance Authority consists of approximately 96 acres. Tax increment financing revenues captured from eligible property shall be used for public facilities to serve eligible property within the tax increment financing district and may include road facilities and other public facilities which are necessary to serve the eligible property whether or not located on that eligible property. Any tax revenues not required by the Local Development Finance Authority to finance public facilities to serve the eligible property within the district shall revert proportionally to the respective taxing jurisdiction.

On July 5, 1994, the City Council amended the P.A. 425 agreement with VeVay Township to include additional land. On October 3, 1994, the City Council amended the boundary for the LDFA to include an additional 67.87 acres. Of that amount, 31.87 acres belong to Michigan Packaging Corporation, and 36 acres belong to Aggregate Industries, Inc. Mason plant. Michigan Packaging Corporation constructed a large manufacturing plant.

The Downtown Development Authority

In accordance with the provision of Act 197 of the Public Acts of 1975 the City Council of the City of Mason established, by ordinance, the Downtown Development Authority on October 15, 1984. The purpose of the Downtown Development Authority is to operate for and on behalf of the City and in cooperation with the City Council in order to correct and prevent deterioration of the Downtown District of the City, to promote economic growth and revitalization, to encourage historic preservation, to address problems of urban decline, and to strengthen existing areas and encourage new private development in the Downtown District. The Downtown Development District includes approximately 20 City blocks in which the primary zoning is commercial. The Downtown Development Authority developed a 20-year development plan and tax increment finance plan, which were both adopted by the City Council on March 16, 1987. Downtown Development Authority Bonds were sold to finance certain improvements as outlined in the Downtown Development Plan. Tax increment financing revenue captured from eligible property is used for the bond and interest payments as well as payment for other public improvements within the District. Any tax revenue not required by the Downtown Development Authority to finance public improvements within the district shall revert proportionally to the respective taxing jurisdictions. The plan was amended in 2001 to include a part time DDA Director and a 30 year development plan.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government of the City of Mason and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services. The primary government of the City of Mason is reported separately from certain legally separate component units for which the City of Mason, the primary government, is financially accountable.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Government-Wide and Fund Financial Statements - Concluded

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds and fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, expenditures for debt service, compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Mason.

The City of Mason reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those to be accounted for in another fund.

The Major Street Fund accounts for major street improvement and resurfacing projects.

The Local Street Fund accounts for local street improvement and resurfacing projects.

The Street Construction Fund accounts for improvement and resurfacing projects impacting both major and local streets. Upon project completion, the appropriate revenues and expenditures are then distributed to the Major Street and Local Street Funds.

The Special Assessments Fund accounts for payment of interest and principal on all special assessment debt.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting, and Financial Statements - Concluded

The Building Authority Fund accounts for expenditures for the purpose of acquiring, furnishing, equipping, improving, enlarging operating and maintaining buildings, and automobile parking lots or structures, recreational facilities and the necessary site or sites for the use of the City of Mason.

The City of Mason reports the following major proprietary funds:

The Water and Sewer Fund accounts for utility operations that are financed primarily by user charges.

Additionally, the City of Mason reports the following fund types:

Special Revenue Funds are used to finance particular activities and are created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory provisions to pay for certain activities with some special form of continuing revenues.

Internal Service Funds are used to account for Motor Vehicle Pool Services provided to other departments on a cost reimbursement basis.

Debt Service Funds are used to account for payment of interest and principal on general obligation debt of governmental funds.

Capital Project Funds account for resources expended to acquire assets of a relatively permanent nature.

Fiduciary Funds account for resources reserved and held by a governmental unit as the trustee or as the agent for others.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Mason has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City of Mason's policy to use restricted resources first. Unrestricted resources are used as they are needed.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

D. Budgetary Accounting Controls

The General and certain Special Revenue funds are subject to cash basis budgetary control. Formal budgets are adopted (as required by law) and budgetary transfers, additional appropriations from additional revenues received or from unexpended funds appropriated but not spent in prior years, etc., are made as and when required. Under the City's budget procedures, amounts appropriated by functional classification as revenue and expenditures of the General fund include interfund transfers. Since such transfers represent internal transactions within the City government, they are reported separately in the financial statements of the various funds. Budgets lapse at the end of the fiscal year.

E. Receivables

Receivables have been recognized for all significant amounts due the City. No allowances have been made for non-collectable accounts because most delinquent receivables can be added to the tax roll if they remain unpaid and become a lien against the property.

F. Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary and fiduciary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

G. Investments

Investments are stated at cost.

H. Inventories

Inventories of materials and supplies are stated at the lower of cost (first-in, first-out) or market. The cost is accounted for as expenditure at the time the inventories are used.

I. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Mason as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. Straight-line depreciation methods are applied over the estimated useful life of capital assets.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

I. Capital Assets - Concluded

The straight-line and declining balance depreciation methods are used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Buildings and improvements	10-40 years
Equipment	5-66 years
Vehicles	3-10 years
Utility systems	20-67 years
Infrastructure	40 years

J. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

K. Deposits and Investments

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents. All investments for both the primary government and all component units are reported at fair value.

L. Compensated Absences

City employees are granted vacation amounts based on length of service. Sick pay is earned at the rate of one day per month. Vacation and sick pay are recorded as expenditures when paid. The City's policy provides for payment of unused vacation, but not sick pay, to terminated employees. Retiring employees are paid for unused vacation and a portion of unused sick pay. The estimated liability for unused vacation pay at June 30, 2005 and 2004, was approximately \$116,306 and \$106,361, respectively.

Sick leave credits can be applied to absences for illness, visits to doctors and dentists, etc. The dollar equivalent of the aggregate accumulated credits at June 30, 2005 and 2004, was approximately \$476,235 and \$502,890, respectively.

Certain of the City's employees are eligible for personal or compensatory time. Unused personal and compensatory time does not carry over from one calendar year to the next, nor is it paid to employees upon termination. The estimated liability for unused personal and compensatory time at June 30, 2005 and 2004 was approximately \$10,061 and \$8,645, respectively.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded**

M. Property Tax Revenue

Properties are assessed as of December 31, and the related taxes become a lien on July 1 of the following year. These taxes are due on August 31, with a final collection date of February 28 before they are returned to the County as delinquent.

N. Comparative Data

Comparative total data for the prior year has been presented in the accompanying fund financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data (i.e. presentation of prior year totals by fund type) has not been presented in the statement of net assets and statement of activities since their inclusion would make the statements unduly complex and difficult to read.

O. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: **EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the City incurred the following expenditures in certain budgetary funds that were in excess of the amounts appropriated as reported in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:

	BUDGET	ACTUAL	EXCESS OF AMOUNT APPROPRIATED
GENERAL FUND			
Cultural	\$ 20,065	\$ 21,435	\$(1,370)
Interest and fiscal charges	615	630	(15)

NOTE 3: **CASH AND INVESTMENTS**

Cash and Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper within the three highest rate classifications by at least two rating services, repurchase agreements collateralized by U.S. Government securities, bankers acceptances and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

As of June 30, 2005, cash and investments are presented in the financial statements as follows:

	CASH AND CASH EQUIVALENTS	RESTRICTED CASH	RESTRICTED INVESTMENTS	TOTAL
Governmental Funds	\$ 2,419,922	\$ 284,942	\$	\$ 2,704,864
Proprietary Funds				
Business-Type	1,948,202	517,154	2,000,000	4,465,356
Internal Service	398,951			398,951
Fiduciary Funds	66,202			66,202
Component Units	<u>937,827</u>	<u></u>	<u></u>	<u>937,827</u>
	<u>\$ 5,771,104</u>	<u>\$ 802,096</u>	<u>\$ 2,000,000</u>	<u>\$ 8,573,200</u>

As of June 30, 2005, the carrying amount and bank balance for each type of deposit and investment account is as follows:

ACCOUNT TYPE	BOOK BALANCE	BANK BALANCE	FDIC INSURED
Cash deposits	\$ 3,555,345	\$ 3,535,726	\$ 200,000
Certificates of deposit	5,017,500	5,017,500	
Petty cash	355		

The City's investments (including those presented as cash) are categorized as follows to give an indication of the level of risk assumed by the City. Category 1 includes deposits and investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the City's name.

At June 30, 2005, the City's investments were classified as follows:

Uninsured and uncollateralized \$ 5,017,500

NOTE 3: CASH AND INVESTMENTS - Concluded

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$8,353,226 of the government's bank balance of \$8,553,226 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$ 8,353,226

Investments of the City are in accordance with statutory authority.

NOTE 4: CAPITAL ASSETS

The following schedule summarizes the changes in governmental capital assets for the year ending June 30, 2005.

	BALANCE JULY 1	ADDITIONS	DELETIONS	BALANCE JUNE 30
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 1,276,251	\$	\$	\$ 1,276,251
Construction in progress	<u>1,088,410</u>	<u>2,092,851</u>	<u>(2,277,771)</u>	<u>903,490</u>
Total capital assets being depreciated	<u>2,364,661</u>	<u>2,092,851</u>	<u>(2,277,771)</u>	<u>2,179,741</u>
Capital assets being depreciated				
Land improvements	769,253			769,253
Buildings and improvements	1,534,512			1,534,512
Infrastructure		1,374,280		1,374,280
Vehicles and equipment	<u>2,119,406</u>	<u> </u>	<u> </u>	<u>2,119,406</u>
Total capital assets being depreciated	<u>4,423,171</u>	<u>1,374,280</u>	<u> </u>	<u>5,797,451</u>
Accumulated depreciation				
Land improvements	343,356	35,296		378,652
Buildings and improvements	551,791	33,001		584,792
Infrastructure		17,179		17,179
Vehicles and equipment	<u>1,802,241</u>	<u>108,323</u>	<u> </u>	<u>1,910,564</u>
Total accumulated depreciation	<u>2,697,388</u>	<u>193,799</u>	<u> </u>	<u>2,891,187</u>
Net capital assets being depreciated	<u>1,725,783</u>	<u>1,180,481</u>	<u> </u>	<u>2,906,264</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>4,090,444</u>	\$ <u>3,273,332</u>	\$ <u>(2,277,771)</u>	\$ <u>5,086,005</u>

NOTE 4: CAPITAL ASSETS - Continued

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

GOVERNMENTAL ACTIVITY	INTERNAL SERVICE FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL
General government	\$ 13,380	\$ 81,712	\$ 95,092
Public safety	19,750		19,750
Culture and recreation	10,955		10,955
Highways and streets	<u>50,823</u>	<u>17,179</u>	<u>68,002</u>
	<u>\$ 94,908</u>	<u>\$ 98,891</u>	<u>\$ 193,799</u>

The following schedule summarizes the changes in governmental activity component units capital assets for the year ending June 30, 2005.

	BALANCE JULY 1	ADDITIONS	DELETIONS	BALANCE JUNE 30
Component Unit - Local Development				
Finance Authority				
Capital assets being depreciated				
Equipment	\$ <u>710,587</u>	\$ _____	\$ _____	\$ <u>710,587</u>
Accumulated depreciation				
Equipment	<u>284,235</u>	<u>71,059</u>	_____	<u>355,294</u>
Net capital assets being				
Depreciated -Local Development				
Finance Authority	<u>\$ 426,352</u>	<u>\$ (71,059)</u>	<u>\$ _____</u>	<u>\$ 355,293</u>

Depreciation expense for the governmental activities component unit was charged to the following functions and activities of the component unit:

GOVERNMENTAL ACTIVITY	AMOUNT
Public safety	<u>\$ 71,059</u>

The following schedule summarizes the changes in business-type capital assets for the year ending June 30, 2005:

	BALANCE JULY 1	ADDITIONS	DELETIONS	BALANCE JUNE 30
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 25,609	\$ _____	\$ _____	\$ 25,609
Construction in progress	<u>2,210,806</u>	<u>369,223</u>	<u>(2,210,806)</u>	<u>369,223</u>
	<u>2,236,415</u>	<u>369,223</u>	<u>(2,210,806)</u>	<u>394,832</u>

NOTE 4: CAPITAL ASSETS - Concluded

	BALANCE JULY 1	ADDITIONS	DELETIONS	BALANCE JUNE 30
Business-Type Activities - Concluded				
Capital assets being depreciated				
Buildings and improvements	\$ 355,637	\$ 100,000	\$	\$ 455,637
Infrastructure	<u>10,213,130</u>	<u>2,149,728</u>	<u> </u>	<u>12,362,858</u>
Total capital assets being depreciated	<u>10,568,767</u>	<u>2,249,728</u>	<u> </u>	<u>12,818,495</u>
Accumulated depreciation				
Buildings and improvements	56,607	15,232		71,839
Infrastructure	<u>4,535,079</u>	<u>306,818</u>	<u> </u>	<u>4,841,897</u>
Total accumulated depreciation	<u>4,591,686</u>	<u>322,050</u>	<u> </u>	<u>4,913,736</u>
Net capital assets being depreciated	<u>5,977,081</u>	<u>1,927,678</u>	<u> </u>	<u>7,904,759</u>
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 8,213,496</u>	<u>\$ 2,296,901</u>	<u>\$ (2,210,806)</u>	<u>\$ 8,299,591</u>

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

GOVERNMENTAL ACTIVITY	AMOUNT
Water and Sewer	\$ <u>322,050</u>

NOTE 5: LONG-TERM DEBT

The following is a summary of long-term debt transactions of the primary government and all component units for the year ended June 30, 2005:

	BALANCE JULY 1	ADDITIONS (DEDUCTIONS)	BALANCE JUNE 30	DUE WITHIN ONE YEAR
Governmental Activities - Primary Government				
\$39,170 note payable to Dart National Bank for purchase of computer, due in annual installments of \$6,745 through August 7, 2005; interest at 4.90%	\$ 12,559	\$ (6,129)	\$ 6,430	\$ 6,430
\$247,000 note payable to Dart National Bank for purchase of Honeywell System due in annual installments of \$11,000 to \$23,000 through April 1, 2009; interest at 4.90%	102,000	(19,000)	83,000	19,000

NOTE 5: **LONG-TERM DEBT** - Continued

	BALANCE JULY 1	ADDITIONS (DEDUCTIONS)	BALANCE JUNE 30	DUE WITHIN ONE YEAR
Governmental Activities - Primary Government - Continued				
\$325,877 note payable to Dart National Bank for purchase of 416 and 426 Park Street due in annual installments of \$31,116 through June 28, 2016; interest at 4.80%	\$ 277,835	\$(17,594)	\$ 260,241	\$ 18,451
\$115,500 note payable to Mason State Bank for purchase of 502 S. Park Street due in annual installments of \$10,868 through May 1, 2017; interest at 4.65%	104,264	(6,028)	98,236	6,298
\$90,000 1998 Special Assessment Bonds due in annual installments of \$6,000 to \$7,000 through September 1, 2012; interest at 4.90%	60,000	(6,000)	54,000	6,000
\$52,000 1999 Special Assessment Bonds due in annual installments of \$3,000 to \$5,000 through October 1, 2013; interest at 4.90%	40,000	(3,000)	37,000	3,000
\$50,000 2002 Special Assessment Bonds due in annual installments of \$14,000 to \$20,000 through May 1, 2005; interest at 3.00%	20,000	(20,000)		
\$205,000 2001 Special Assessment Bonds due in annual installments of \$5,000 to \$20,000 through November 1, 2007; interest at 4.30% to 5.00%	170,000	(15,000)	155,000	15,000
\$205,000 1996 Special Assessment Bonds due in annual installments of \$15,000 to \$20,000 through November 1, 2010; interest at 4.45% to 5.50%	110,000	(15,000)	95,000	20,000

NOTE 5: **LONG-TERM DEBT** - Continued

	BALANCE JULY 1	ADDITIONS (DEDUCTIONS)	BALANCE JUNE 30	DUE WITHIN ONE YEAR
Governmental Activities -				
Primary Government - Concluded				
\$450,000 1997 Building Authority Bonds due in annual installments of \$10,000 to \$40,000 through October 1, 2018; interest at 3.85% to 5.15%	\$ 385,000	\$ (15,000)	\$ 370,000	\$ 15,000
Accumulated compensated absences	<u>617,896</u>	<u>(15,294)</u>	<u>602,602</u>	<u> </u>
TOTAL PRIMARY GOVERNMENT	\$ <u>1,899,554</u>	\$ <u>(138,045)</u>	1,761,509	\$ <u>109,179</u>
Less: amounts payable within one year			<u>(109,179)</u>	
TOTAL LONG TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES PRIMARY GOVERNMENT			\$ <u>1,652,330</u>	
Component Units				
\$425,000 1992 Local Development Finance Authority Bonds due in annual installments of \$10,000 to \$35,000 through October 1, 2013; interest at 5.75% to 8.00%	\$ 275,000	\$ (20,000)	\$ 255,000	\$ 20,000
\$1,125,000 1994 Local Development Finance Authority Bonds due in annual installments of \$75,000 to \$85,000 through April 1, 2010; interest at 6.10% to 7.65%	505,000	(80,000)	425,000	85,000
\$1,386,000 1998 Local Development Finance Authority, Michigan Jobs Commission, Series A, due in annual installments of \$106,615 through August 1, 2011	852,923	(106,615)	746,308	106,615
\$1,414,000 1998 Local Development Finance Authority, Series B, due in annual installments of \$61,982 to \$116,113, through March 1, 2011; effective interest rate of 1.481%	<u>778,055</u>	<u>(106,308)</u>	<u>671,747</u>	<u>107,883</u>
TOTAL COMPONENT UNITS	\$ <u>2,410,978</u>	\$ <u>(312,923)</u>	2,098,055	\$ <u>319,498</u>
Less: amounts payable within one year			<u>(319,498)</u>	
TOTAL LONG TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES COMPONENT UNITS			\$ <u>1,778,557</u>	

NOTE 5: LONG-TERM DEBT - Continued

	BALANCE JULY 1	ADDITIONS (DEDUCTIONS)	BALANCE JUNE 30	DUE WITHIN ONE YEAR
Business-Type Activities				
\$690,000 Water and Sewage Disposal System Revenue Refunding Bonds, Series 2002, due in annual installments of \$165,000 to \$180,000 through May 1, 2006; interest at 3.00%	\$ 355,000	\$ (175,000)	\$ 180,000	\$ 180,000
\$100,000 Water and Sewage Disposal System Revenue Refunding Bonds, Series 2005, due in annual installments of \$12,511 to \$16,195 through May 13, 2011; interest at 4.50%		83,805	83,805	12,511
Less: bond premium	(15,358)	(8,377)	(6,981)	(6,981)
TOTAL BUSINESS- TYPE ACTIVITIES	\$ <u>399,642</u>	\$ (<u>99,572</u>)	256,824	\$ <u>185,530</u>
Less: amounts payable within one year			(185,530)	
TOTAL LONG TERM OBLIGATIONS BUSINESS-TYPE ACTIVITIES			\$ <u>71,294</u>	

Annual debt service requirements to maturity for primary government obligations are as follows:

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>	
YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2006	\$ 109,179	\$ 55,035	\$ 185,530	\$ 9,171
2007	110,940	49,414	13,074	3,208
2008	109,151	44,199	13,662	2,620
2009	112,501	38,933	14,277	2,005
2010	95,866	33,406	14,919	1,363
2011	97,303	28,778	15,362	690
2012	83,786	24,476		
2013	86,391	20,399		
2014	86,042	16,263		
2015	77,776	12,311		
2016	69,588	8,746		
2017	45,384	5,211		
2018	35,000	2,953		
2019	40,000	1,030		
Unknown	<u>602,602</u>			
	\$ <u>1,761,509</u>	\$ <u>341,154</u>	\$ <u>256,824</u>	\$ <u>19,057</u>

NOTE 5: **LONG-TERM DEBT** - Concluded

Annual debt service requirements to maturity for component unit long-term obligations are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST
2006	\$ 319,498	\$ 55,628
2007	326,096	46,667
2008	327,718	37,508
2009	329,364	28,306
2010	336,034	18,905
2011	252,729	9,303
2012	136,616	5,610
2013	35,000	3,465
2014	<u>35,000</u>	<u>1,155</u>
	<u>\$ 2,098,055</u>	<u>\$ 206,547</u>

NOTE 6: **DEFINED BENEFIT PENSION PLAN**

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan, 48917.

Funding Policy

The City is required to contribute the amounts necessary to fund the system.

Annual Pension Cost

For year ended June 30, 2005, the City's annual pension cost of \$127,453 was equal to the City's actual and required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal funding method. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to merit/longevity; and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement for persons under Benefit E-1 or E-2.

Five Year Trend Information

	2000	2001	DECEMBER 31, 2002	2003	2004
Annual pension cost	\$ 46,705	\$ 44,022	\$ 65,161	\$ 120,271	\$ 127,453
Percentage of annual pension cost contributed	100%	98%	76%	100%	100%
Actuarial value of assets	7,100,801	7,512,215	7,745,570	8,307,716	8,769,133
Actuarial accrued liability	7,270,598	7,800,753	8,503,029	9,476,465	10,254,712
Unfunded actuarial accrued liability	169,797	288,538	757,459	1,168,749	1,485,579
Funded ratio	98%	96%	91%	88%	86%
Covered payroll	1,568,856	1,611,077	1,863,376	2,078,653	1,949,928
Unfunded actuarial accrued liability as a percentage of covered payroll	11%	18%	41%	56%	76%

NOTE 7: **INTERFUND TRANSFERS**

The following are transfers, by fund, for the year ending June 30, 2005:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
General Fund	\$ 447,610	Cemetery Trust	\$ 4,835
		Major Streets	52,080
		Local Streets	50,910
		Water and Sewer	300,495
		Rayner Bond	5,150
		Motor Vehicle Pool	26,770
		Local Development	
		Finance Authority	<u>7,370</u>
Subtotal	<u>447,610</u>	Subtotal	<u>447,610</u>
Special Assessments	<u>250,000</u>	General	<u>250,000</u>
General Obligations	<u>41,982</u>	General	<u>41,982</u>
Street Construction	<u>945,457</u>	Major Streets	820,677
		Special Assessments	<u>124,780</u>
Subtotal	<u>945,457</u>	Subtotal	<u>945,457</u>
Capital Improvements	<u>23,979</u>	General Fund	23,710
		Motor Vehicle Pool	<u>269</u>
Subtotal	<u>23,979</u>	Subtotal	<u>23,979</u>
Water and Sewer	<u>159,659</u>	Local Development	
		Finance Authority	<u>159,659</u>
Building Authority	<u>33,244</u>	General Fund	<u>33,244</u>
TOTAL	<u>\$ 1,901,931</u>	TOTAL	<u>\$ 1,901,931</u>

The following are transfers, by fund type, for the year ending June 30, 2005:

FUND TYPE	TRANSFERS IN	FUND TYPE	TRANSFERS OUT
Governmental funds	\$ 1,742,272	Governmental funds	\$ 1,407,368
Proprietary funds		Proprietary funds	
Business-type	159,659	Business-type	300,495
Internal service		Internal service	27,039
Component units		Component units	<u>167,029</u>
TOTAL	<u>\$ 1,901,931</u>	TOTAL	<u>\$ 1,901,931</u>

NOTE 8: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables are as follows:

FUND	INTERFUND RECEIVABLE	INTERFUND PAYABLE
General Fund	\$ 8,568	\$ 36,501
Special Revenue Funds	8,323	4,767
Internal Service Funds	2,080	
Permanent Funds	11,933	4,835
Fiduciary Funds		3,085
Business-Type Funds	2,180	1,176
Component Units	<u>18,202</u>	<u>922</u>
	<u>\$ 51,286</u>	<u>\$ 51,286</u>

NOTE 9: ENTERPRISE FUND - RESTRICTED ASSETS

According to City ordinances regarding Water and Sewer Fund Revenue Bonds, the City is required to restrict a portion of its cash for a Replacement Fund. In accordance with this requirement, as of June 30, 2005, the restricted cash was segregated in the following account:

Replacement reserve – expansion of POTW	<u>\$ 2,517,154</u>
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NOTE 10: SEGMENT INFORMATION FOR ENTERPRISE FUND

The City maintains one Enterprise Fund: the Water and Sewer Fund.

Segment information for the year ended June 30, 2005, was as follows:

Total assets	\$ 12,986,862
Total liabilities	282,712
Net assets	12,704,150
Operating revenues	2,259,937
Operating expenses	1,351,478
Operating income	908,459
Nonoperating revenue (expense)	56,116
Net transfers in (out)	(140,836)
Change in net assets	823,739
Net assets, July 1	11,880,411
Net assets, June 30	12,704,150
Net cash provided by (used in)	
Operating activities	581,817
Noncapital financing activities	(140,836)
Capital and related financing activities	(510,078)
Investing activities	(292,239)
Net decrease in cash and cash equivalents	(361,336)
Cash and cash equivalents, July 1	2,309,538
Cash and cash equivalents, June 30	1,948,202

GENERAL FUND

The General Fund exists to account for the resources devoted to finance the services traditionally associated with local government. Included in these services are law enforcement, fire department, protective services and general administration of the City. Any other activity for which a special fund has not been created is accounted for in the General Fund.

CITY OF MASON, MICHIGAN

BALANCE SHEET

GENERAL FUND

JUNE 30, 2005

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	2005	2004
ASSETS		
Cash	\$ 936,452	\$ 1,117,564
Receivables		
Special assessments	35,870	32,423
Accounts	3,184	106,559
Accrued interest	4,914	2,488
Due from other funds	8,568	12,345
Due from other units of government	602	183
Due from State of Michigan	92,380	
Deferred expense	10,730	9,047
TOTAL ASSETS	<u>\$ 1,092,700</u>	<u>\$ 1,280,609</u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 109,340	\$ 109,534
Due to other funds	36,501	55,209
Due to other units of government	50	
Deferred revenue	10,455	6,315
TOTAL LIABILITIES	<u>156,346</u>	<u>171,058</u>
 FUND BALANCE		
Fund balance		
Reserved	77,869	96,682
Unreserved	858,485	1,012,869
TOTAL FUND BALANCE	<u>936,354</u>	<u>1,109,551</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,092,700</u>	<u>\$ 1,280,609</u>

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Clerk	\$ 390	\$ 580	\$ 217	\$ (363)
Elections	9,600	3,860	7,085	3,225
Treasurer				
General administrative	72,620	74,735	74,665	(70)
Property taxes, penalties on taxes and other	1,419,945	1,426,755	1,427,452	697
Licenses and permits	86,230	112,405	116,298	3,893
State revenues	675,000	675,000	665,033	(9,967)
Interest and rentals	31,700	60,150	33,596	(26,554)
Sundry	6,885	8,165	8,166	1
Total Treasurer	2,292,380	2,357,210	2,325,210	(32,000)
Cemetery	40,820	30,705	32,319	1,614
Police Department	47,165	74,905	66,173	(8,732)
Fire Department	123,475	124,455	125,062	607
Forestry	28,465	28,465	28,465	
Refuse collection	247,565	248,080	248,103	23
Recreation	300	2,500	2,503	3
TOTAL REVENUES	\$ 2,790,160	\$ 2,870,760	\$ 2,835,137	\$ (35,623)

CITY OF MASON, MICHIGAN
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

EXPENDITURES	BUDGET		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
Council	\$ 25,340	\$ 23,765	\$ 23,512	\$ 253
Administrator	187,825	312,030	310,387	1,643
Elections	25,180	17,560	17,366	194
General Service Administration				
Assessing	87,830	84,250	83,886	364
City attorney	60,000	65,500	65,291	209
Board of review	720	690	690	
Treasurer	321,585	330,270	328,775	1,495
Technology		8,250	7,744	506
Buildings and grounds	112,675	100,685	98,412	2,273
Forestry	37,600	38,335	36,592	1,743
Cemetery	158,600	159,595	159,141	454
Unallocated	267,380	150,835	157,206	(6,371)
Total General Service Administration	1,046,390	938,410	937,737	673
Fire Department	233,955	255,315	248,341	6,974
Protective Services				
Building inspector	80,160	79,900	79,022	878
Civil defense and disaster	800	405	204	201
Total Protective Services	80,960	80,305	79,226	1,079
Law Enforcement				
Police administration	183,095	164,715	162,235	2,480
Crossing guard	35,310	35,260	35,251	9
Police patrolling	826,920	786,975	779,768	7,207
Total Law Enforcement	1,045,325	986,950	977,254	9,696
Public Services	4,595	5,055	4,952	103
Engineering	4,645	1,100	1,057	43
Highways, streets, bridges and lighting	83,000	77,200	76,993	207
Sanitation	231,100	251,250	251,237	13
Recreation				
Recreation activities	142,880	146,765	136,397	10,368
Christmas decorations	2,985	3,490	3,472	18
Total Recreation	145,865	150,255	139,869	10,386

CITY OF MASON, MICHIGAN
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND - Concluded
FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
Cultural Library	\$ 11,805	\$ 20,065	\$ 21,435	\$ (1,370)
Cable Commission	3,800	3,410	3,221	189
Contingencies		6,100	6,098	2
Planning Commission	4,000	1,600	1,578	22
Debt Service				
Bond/loan principal	6,130	6,130	6,115	15
Interest	615	615	630	(15)
Total Debt Service	6,745	6,745	6,745	
TOTAL EXPENDITURES	\$ 3,140,530	\$ 3,137,115	\$ 3,107,008	\$ 30,107

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to finance particular activities and are created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

The City's Special Revenue Funds include Major Streets, Local Streets, Street Construction and Economic Development Corporation.

CITY OF MASON, MICHIGAN

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS

JUNE 30, 2005

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	MAJOR STREETS	LOCAL STREETS
ASSETS		
Cash and cash equivalents	\$ 367,691	\$ 126,701
Receivables		
Accounts	126	71
Accrued interest	26	15
Due from other funds	5,766	2,244
Due from State of Michigan	53,512	40,314
TOTAL ASSETS	<u>\$ 427,121</u>	<u>\$ 169,345</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$	\$ 105
Retainers payable		
Due to other funds		
TOTAL LIABILITIES		<u>105</u>
FUND BALANCE		
Unreserved	<u>427,121</u>	<u>169,240</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 427,121</u>	<u>\$ 169,345</u>

STREET CONSTRUCTION	ECONOMIC DEVELOPMENT CORPORATION	TOTAL	
		2005	2004
\$ 208,498	\$ 18,476	\$ 721,366	\$ 436,614
		197	
		41	50
	313	8,323	50,859
		93,826	78,426
<u>\$ 208,498</u>	<u>\$ 18,789</u>	<u>\$ 823,753</u>	<u>\$ 565,949</u>
\$ 107,474	\$	\$ 107,579	\$
54,442		54,442	
4,767		4,767	6,185
<u>166,683</u>		<u>166,788</u>	<u>6,185</u>
<u>41,815</u>	<u>18,789</u>	<u>656,965</u>	<u>559,764</u>
<u>\$ 208,498</u>	<u>\$ 18,789</u>	<u>\$ 823,753</u>	<u>\$ 565,949</u>

CITY OF MASON, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30 ,2004)

	MAJOR STREETS	LOCAL STREETS
REVENUES		
Taxes	\$ 853,986	\$
State revenue	344,347	136,426
Interest	5,530	4,674
Other	367	2,089
TOTAL REVENUES	<u>1,204,230</u>	<u>143,189</u>
EXPENDITURES		
Highways and streets	<u>194,152</u>	<u>174,529</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,010,078</u>	<u>(31,340)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in		
Transfers out	<u>(872,757)</u>	<u>(50,910)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(872,757)</u>	<u>(50,910)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	137,321	(82,250)
FUND BALANCE, JULY 1	<u>289,800</u>	<u>251,490</u>
FUND BALANCE, JUNE 30	<u>\$ 427,121</u>	<u>\$ 169,240</u>

STREET CONSTRUCTION	ECONOMIC DEVELOPMENT CORPORATION	2005	TOTAL 2004
\$	\$	\$	\$
		853,986	691,013
		480,773	505,785
	314	10,518	6,681
		2,456	2,084
	314	1,347,733	1,205,563
903,642		1,272,323	1,088,410
(903,642)	314	75,410	117,153
945,457		945,457	
		(923,667)	(100,670)
945,457		21,790	(100,670)
41,815	314	97,200	16,483
	18,475	559,765	543,281
\$ 41,815	\$ 18,789	\$ 656,965	\$ 559,764

DEBT SERVICE FUNDS

Debt Service Funds are established to finance and account for the payment of interest and principal on all general obligation debt and other assessment debt other than that payable exclusively from revenue bonds issued for and serviced by a governmental enterprise.

The City's Debt Service Funds are legal in nature. They were established in accordance with statutes and/or bond indentures. Their use enhances the attractiveness of bonds to prospective buyers resulting, possibly, in a lower rate of interest. Inclusion of debt service fund provisions in the indenture indicates to the buyer that the timing of the acquisition of assets with which to satisfy maturing debt has been formalized and that a sophisticated administrative approach to servicing the debt will be followed.

The City's Debt Service Funds include Special Assessment Bonds, General Obligations and Building Authority.

CITY OF MASON, MICHIGAN

COMBINING BALANCE SHEET

DEBT SERVICE FUNDS

JUNE 30, 2005

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	SPECIAL ASSESSMENTS	GENERAL OBLIGATIONS	BUILDING AUTHORITY	TOTAL 2005	TOTAL 2004
ASSETS					
Cash and cash equivalents	\$ 263,208	\$	\$ 253	\$ 263,461	\$ 99,287
Receivables					
Special assessments	2,010,704			2,010,704	354,505
Accrued interest					2
TOTAL ASSETS	<u>\$ 2,273,912</u>	<u>\$</u>	<u>\$ 253</u>	<u>\$ 2,274,165</u>	<u>\$ 453,794</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Deferred revenue	\$ 2,010,704	\$	\$	\$ 2,010,704	\$ 354,502
FUND BALANCE	<u>263,208</u>	<u></u>	<u>253</u>	<u>263,461</u>	<u>99,292</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,273,912</u>	<u>\$</u>	<u>\$ 253</u>	<u>\$ 2,274,165</u>	<u>\$ 453,794</u>

CITY OF MASON, MICHIGAN
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCE
 DEBT SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004)

	SPECIAL ASSESSMENTS	GENERAL OBLIGATIONS	BUILDING AUTHORITY	TOTAL 2005	TOTAL 2004
REVENUES					
Special assessments	\$ 99,595	\$	\$	\$ 99,595	\$ 77,632
Interest	17,452		4	17,456	18,358
TOTAL REVENUES	<u>117,047</u>		<u>4</u>	<u>117,051</u>	<u>95,990</u>
EXPENDITURES					
Other					21,719
Bond/loan principal	59,000	23,440	15,000	97,440	92,504
Interest on fiscal charges	19,102	18,542	18,244	55,888	60,198
TOTAL EXPENDITURES	<u>78,102</u>	<u>41,982</u>	<u>33,244</u>	<u>153,328</u>	<u>174,421</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>38,945</u>	<u>(41,982)</u>	<u>(33,240)</u>	<u>(36,277)</u>	<u>(78,431)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	250,000	41,982	33,244	325,226	75,856
Transfers out	(124,780)			(124,780)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>125,220</u>	<u>41,982</u>	<u>33,244</u>	<u>200,446</u>	<u>75,856</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	164,165		4	164,169	(2,575)
FUND BALANCE, JULY 1	<u>99,043</u>		<u>249</u>	<u>99,292</u>	<u>101,867</u>
FUND BALANCE, JUNE 30	<u>\$ 263,208</u>	<u>\$</u>	<u>\$ 253</u>	<u>\$ 263,461</u>	<u>\$ 99,292</u>

CAPITAL PROJECT FUNDS

Capital Project Funds are designed to account for the resources expended to acquire assets of a relatively permanent nature. These funds satisfy the special accounting requirements for bond proceeds and projects utilizing more than one funding source.

Capital Project Funds provide a formal mechanism which enables administrators to ensure that revenues dedicated to a certain purpose are used only for that purpose and further enables them to report to creditors and other grantors of Capital Project Funds revenue that the requirements regarding the use of the revenue were fully satisfied.

The City's Capital Improvements fund is operated as a Capital Project Fund.

CITY OF MASON, MICHIGAN

BALANCE SHEET

CAPITAL PROJECTS FUND

CAPITAL IMPROVEMENTS

JUNE 30, 2005

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	2005	TOTAL	2004
ASSETS			
Cash and cash equivalents	\$ <u>69,919</u>		\$ <u>70,960</u>
FUND BALANCE			
Reserved	\$ <u>69,919</u>		\$ <u>70,960</u>

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUND
CAPITAL IMPROVEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004)

	2005	TOTAL 2004
REVENUES		
Interest	\$ 1,256	\$ 1,026
State revenue		17,900
TOTAL REVENUES	<u>1,256</u>	<u>18,926</u>
EXPENDITURES		
Capital outlay	2,297	124,836
Loan payment	19,000	18,000
Interest	4,979	5,882
TOTAL EXPENDITURES	<u>26,276</u>	<u>148,718</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(25,020)</u>	<u>(129,792)</u>
OTHER FINANCING SOURCES		
Transfers in	<u>23,979</u>	<u>23,890</u>
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(1,041)	(105,902)
FUND BALANCE, JULY 1	<u>70,960</u>	<u>176,862</u>
FUND BALANCE, JUNE 30	<u>\$ 69,919</u>	<u>\$ 70,960</u>

INTERNAL SERVICE FUNDS

Internal Service Funds are established to finance and account for services and/or commodities furnished by a designated program to other programs within the City. Since the services and commodities are supplied exclusively to programs under the City's jurisdiction, they are distinguishable from those services which are rendered to the public in general and which are accounted for in General, Special Revenue or Enterprise Funds.

The City's Motor Vehicle Pool is operated as an Internal Service Fund.

CITY OF MASON, MICHIGAN

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUND

MOTOR VEHICLE POOL

JUNE 30, 2005

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	2005	TOTAL 2004
ASSETS		
Cash	\$ 398,951	\$ 241,881
Accounts receivable	13	26
Due from other funds	2,080	8,146
Land, buildings and equipment	1,540,025	1,540,025
Less: accumulated depreciation	(1,306,720)	(1,211,812)
TOTAL ASSETS	<u>\$ 634,349</u>	<u>\$ 578,266</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,084	\$ 45
Due to other funds		1,730
Deferred revenue		
TOTAL LIABILITIES	<u>1,084</u>	<u>1,775</u>
NET ASSETS		
Contributed capital	81,497	81,497
Retained earnings		
Unreserved	<u>551,768</u>	<u>494,994</u>
TOTAL NET ASSETS	<u>633,265</u>	<u>576,491</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 634,349</u>	<u>\$ 578,266</u>

CITY OF MASON, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUND
MOTOR VEHICLE POOL
FOR THE YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	2005	TOTAL	2004
OPERATING REVENUES			
Charges for services	\$ 289,360		\$ 303,272
Other	<u>3,174</u>		<u>4,562</u>
TOTAL OPERATING REVENUES	<u>292,534</u>		<u>307,834</u>
OPERATING EXPENSES			
Personnel costs	32,119		40,556
Contractual services	17,889		8,877
Supplies	52,694		49,135
Public utilities	6,174		5,862
Depreciation	94,908		130,172
Maintenance	<u>10,007</u>		<u>30,394</u>
TOTAL OPERATING EXPENSES	<u>213,791</u>		<u>264,996</u>
INCOME FROM OPERATIONS	<u>78,743</u>		<u>42,838</u>
NONOPERATING REVENUES			
Interest income	<u>5,070</u>		<u>1,425</u>
INCOME BEFORE OPERATING TRANSFERS	<u>83,813</u>		<u>44,263</u>
OTHER FINANCING USES			
Transfers out	<u>(27,039)</u>		<u>(26,435)</u>
NET INCOME	56,774		17,828
NET ASSETS, JULY 1	<u>494,994</u>		<u>477,166</u>
NET ASSETS, JUNE 30	<u>\$ 551,768</u>		<u>\$ 494,994</u>

CITY OF MASON, MICHIGAN

STATEMENT OF CASH FLOWS

INTERNAL SERVICE FUND

MOTOR VEHICLE POOL

FOR THE YEAR ENDED JUNE 30, 2005

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004)

	2005	TOTAL	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	\$ 78,743	\$	42,838
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	94,908		130,172
(Increase) decrease in			
Receivables	13		(26)
Due from other funds	6,066		(8,146)
Increase (decrease) in			
Accounts payable	1,084		(3,228)
Due to other funds	(45)		(12,215)
Deferred revenue	(1,730)		1,730
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>179,039</u>		<u>151,125</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	<u>(27,039)</u>		<u>(26,435)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets			<u>(67,138)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>5,070</u>		<u>1,425</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	157,070		58,977
CASH AND CASH EQUIVALENTS, JULY 1	<u>241,881</u>		<u>182,904</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 398,951</u>	\$	<u>241,881</u>

PERMANENT FUNDS

Permanent Funds are established to administer resources received and held by a governmental unit as the trustee or as the agent for others. Use of these funds facilitates the discharge of responsibilities placed upon the governmental unit by virtue of law or other similar authority.

The City's Permanent Funds are Cemetery Trust and Rayner Bond Funds.

CITY OF MASON, MICHIGAN
 COMBINING BALANCE SHEET
 PERMANENT FUNDS
 JUNE 30, 2005
 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	CEMETERY TRUST	RAYNER BOND	TOTAL 2005	2004
ASSETS				
Cash and cash equivalents	\$	\$ 428,724	\$ 428,724	\$ 397,042
Restricted cash	284,942		284,942	280,453
Due from other funds	<u>4,831</u>	<u>7,102</u>	<u>11,933</u>	
TOTAL ASSETS	<u>\$ 289,773</u>	<u>\$ 435,826</u>	<u>\$ 725,599</u>	<u>\$ 677,495</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Due to other funds	\$ <u>4,835</u>	\$ <u></u>	\$ <u>4,835</u>	\$ <u></u>
FUND BALANCE				
Reserved	284,938		284,938	280,453
Unreserved	<u></u>	<u>435,826</u>	<u>435,826</u>	<u>397,042</u>
TOTAL FUND BALANCE	<u>284,938</u>	<u>435,826</u>	<u>720,764</u>	<u>677,495</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 289,773</u>	<u>\$ 435,826</u>	<u>\$ 725,599</u>	<u>\$ 677,495</u>

CITY OF MASON, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 PERMANENT FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004)

	CEMETERY TRUST	RAYNER BOND	TOTAL 2005	2004
REVENUES				
Charges for services	\$ 4,485	\$	\$ 4,485	\$ 4,303
Interest and royalties	<u>4,835</u>	<u>43,934</u>	<u>48,769</u>	<u>37,284</u>
TOTAL REVENUES	<u>9,320</u>	<u>43,934</u>	<u>53,254</u>	<u>41,587</u>
EXPENDITURES				
Other	<u></u>	<u></u>	<u></u>	<u></u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>9,320</u>	<u>43,934</u>	<u>53,254</u>	<u>41,587</u>
OTHER FINANCING USES				
Transfers out	<u>(4,835)</u>	<u>(5,150)</u>	<u>(9,985)</u>	<u>(14,435)</u>
EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES AND OTHER USES	4,485	38,784	43,269	27,152
FUND BALANCE, JULY 1	<u>280,453</u>	<u>397,042</u>	<u>677,495</u>	<u>650,343</u>
FUND BALANCE, JUNE 30	<u>\$ 284,938</u>	<u>\$ 435,826</u>	<u>\$ 720,764</u>	<u>\$ 677,495</u>

GENERAL LONG-TERM DEBT ACCOUNT GROUP

General obligation bonds and other forms of long-term debt supported by general revenues are obligations of the governmental unit as a whole and not its individual constituent funds. Also, the proceeds of such debt may be spent on facilities which are utilized in the operations of several funds. For these reasons, the amount of such unmatured long-term indebtedness is recorded and accounted for in a separate self-balancing group of accounts titled "General Long-Term Debt Account Group."

CITY OF MASON, MICHIGAN
STATEMENT OF GENERAL LONG-TERM DEBT
GENERAL LONG-TERM DEBT ACCOUNT GROUP
JUNE 30, 2005

**AMOUNTS AVAILABLE AND TO BE PROVIDED FOR
PAYMENT OF LONG-TERM DEBT**

Amount available in Debt Service Funds	\$ 263,461
Amount to be provided for payment of long-term debt	895,446
Amount to be provided by City for accrued compensated absences	<u>602,602</u>
TOTAL	\$ <u>1,761,509</u>

GENERAL LONG-TERM DEBT PAYABLE

4.9% Bank note for computer purchase dated August 12, 1998	\$ 6,430
4.9% Bank note for Honeywell System dated April 22, 1994	83,000
4.8% Bank note for 416 & 426 Park Street dated June 29, 2002	260,241
4.9% Bank note for 502 S. Park Street dated April 11, 2003	98,236
4.9% Special Assessment Bonds, Series 1998	54,000
4.9% Special Assessment Bonds, Series 1999	37,000
4.3% - 5.0% Special Assessment Bonds, Series 2001	155,000
4.45% - 5.5% Special Assessment Bonds, Series 1996	95,000
3.85% 5.15% Building Authority Bonds, Series 1997	370,000
Accrued compensated absences	<u>602,602</u>
	\$ <u>1,761,509</u>

SINGLE AUDIT REPORT



Layton & Richardson, P.C.

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REPORT INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Mason
Mason, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City of Mason, Michigan's basic financial statements and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mason, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mason, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to management of the City of Mason, Michigan, in a separate letter dated August 19, 2005.

This report is intended solely for the information and use of the Honorable Mayor and City Council, management and others within the City and federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton + Richardson P.C.

Certified Public Accountants

East Lansing, Michigan
August 19, 2005



Layton & Richardson, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Mason
Mason, Michigan

Compliance

We have audited the compliance of the City of Mason, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. The City of Mason, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Mason, Michigan's management. Our responsibility is to express an opinion on the City of Mason, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about the City of Mason, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Mason, Michigan's compliance with those requirements.

In our opinion, the City of Mason, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Mason, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Mason, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Honorable Mayor and City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton + Richardson PC
Certified Public Accountants

East Lansing, Michigan
August 19, 2005

CITY OF MASON, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Mason.
2. No reportable conditions relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the City of Mason were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs for the City of Mason expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the City of Mason.
7. The program tested as a major program was: Community Development Block Grant, CFDA No. 14.228.
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. City of Mason was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

CITY OF MASON
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	THROUGH GRANTOR'S NUMBER	LOAN PERIOD FROM TO		LOAN BALANCE
Department of Housing and Urban Development/Michigan Department of Commerce					

Community Development Block Grant – Loan	14.228	MSC960024-EDIG	1-1-1999	6-30-2005	\$ <u>746,308</u>
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FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT FROM TO		AWARD AMOUNT	CURRENT YEAR EXPENDITURES	CUMULATIVE EXPENDITURES
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Department of
Homeland Security
Office for Domestic
Preparedness

Emergency Preparedness
and Response
Directorate (FEMA) –
Assistance to
Firefighters Grant

06.794	10-1-2004	9-30-2005	\$ 31,500	\$ <u>31,230</u>	\$ <u>31,230</u>
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LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Council
City of Mason
Mason, Michigan

We have examined the financial statements of the City of Mason, Michigan for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. As part of our audit, we made a study and evaluation of the City's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the City of Mason is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system.

PRIOR YEAR FINDINGS

CASH RECEIPTS

Checks are not stamped "For Deposit Only" immediately after opening the mail. We recommend endorsing incoming checks "For Deposit Only" immediately upon receipt. This will help prevent fraud and will improve internal controls over cash receipts.

The person who opens the mail (the clerk) is generally the same person who enters the cash receipts into the computer and cash drawer. We recommend segregating duties so that mail is opened by an individual who does not enter the receipts into the computer. This increase in segregation of duties will help prevent the opportunity for fraud and will improve internal controls over cash receipts. **Management response: City Council declined to implement.**

ACCOUNTS PAYABLE

Accounts payable listings at year end are not prepared. Such a listing should include all items (and their related dollar amounts) that make up the balance as of June 30. Current procedures carry forward balances from year to year showing increases and decreases. Utilizing this method does not lend itself to facilitating proper verification that an accurate cut-off of accounts payable has been accomplished. **Management response: This has been implemented.**

CURRENT YEAR FINDINGS

ACCRUED PAYROLL

The current policy of the City is to not record accrued payroll expenses. Accrued payroll expenses represent pay earned by employees through June 30, but not paid until after June 30. Depending on the timing of the payroll cycle, such amounts are typically paid in the first or second pay date in July. Unrecorded payroll expense has, historically, not been material in total. However, as this amount depends on the timing of pay periods and pay dates, pay rates and the number of employees, the amount could easily become material. We recommend the City begin to accrue payroll expenses effective with the June 30, 2006 fiscal year end.

When the policy to record accrued payroll expenses is adopted, the majority of the adjustment in the first year will impact prior Fund Balance and Net Assets. The amount impacting the current year expenses will be the change in the accrued balance from the previous year end.

TIMING OF RECOGNITION OF REVENUES AND EXPENDITURES

GASB 34 requires Governmental Units to use the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows, and regardless of the fiscal year the related revenue or expense was budgeted. The City of Mason adopted GASB 34 effective with the fiscal year ended June 30, 2004. In performing our audit procedures, we noted a preference on the part of the City to record transactions in the fiscal year budgeted, regardless of when the related liability was incurred. We understand from discussions with Kathy Revels, City Finance Director, effective July 1, 2005, the City is changing its practice to recognize expenses when the liability is incurred. For material transactions that occur and are properly recorded in the fiscal year prior to, or subsequent to, the fiscal year in which the transaction was originally budgeted, the Finance Director will recommend appropriate amendments to the budgets of both impacted fiscal years for the Board's consideration. We concur with and strongly support this change in emphasis.

We are grateful to the officials and employees of the City of Mason for the assistance and cooperation which we received during the audit, and we thank them.

Very truly yours,

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
August 19, 2005